

Credit Unions and the Mortgage Crisis

Presented by David Adams
President/CEO, Michigan Credit Union League

House Banking and Financial Services Committee
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About the Michigan Credit Union League (MCUL)

- The MCUL is the primary statewide trade association representing credit unions in Michigan.
- The League currently represents 328 or 90% of the state's 361 credit unions.
- The MCUL is based in Northville Township with 101 employees.
- To better serve its member credit unions, the MCUL maintains a Lansing Government Affairs Office.
- The MCUL is affiliated with the Credit Union National Association (CUNA).

Source: Michigan Credit Union League

Credit Unions by the Numbers

- Number of credit unions in Michigan – 361
 - 233 State chartered
 - 128 Federally chartered
- Credit union members – 4.4 million

- Number of credit unions nationally – 8,462
 - 5,255 Federally chartered
 - 3,207 State chartered
- Credit union members – 86 million

Source: Credit Union National Association-2006 Statistical Comparison

Credit Unions and Mortgage Lending

- Credit unions are not-for-profit financial cooperatives.
- Under the CU Charter, there is *no* profit motive when making loans.
- Credit unions originate mortgages both for their own portfolios as well as for the secondary mortgage market.
- Credit unions must adhere to strict standards established by regulation plus federal & state laws
- State Chartered credit unions are regulated by the Office of Financial and Insurance Services (OFIS).

Source: Michigan Credit Union League

Credit Union Mortgages (U.S.)

August 2007

- 1st Mortgages-fixed: 22.3% or \$119.4 billion
- 1st Mortgages-adj.: 11.4 % or \$61 billion
- 2nd Mortgages: 10.1% or \$54.1 billion
- Total Mortgages: 43.8% or \$234.5 billion
- Total Loan Portfolio: \$535.6 billion

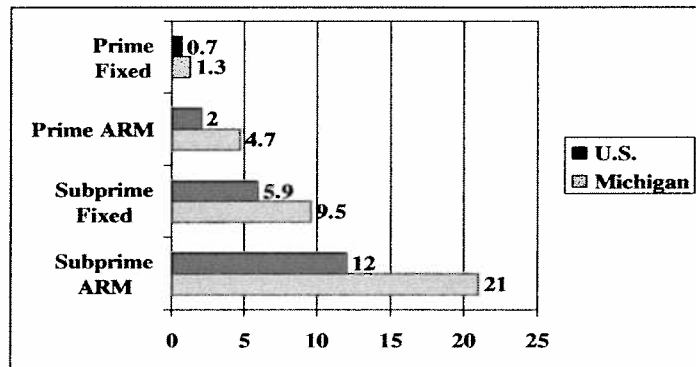
Source: Credit Union National Association

Michigan Credit Unions Data

- Credit union mortgage delinquency rates nationally are much lower than rates at lenders offering sub prime loans: (0.7% compared to 10-15%).
- **In Michigan; less than 5 percent** of credit unions have a serious delinquency rate (90 days or more) over 1.0% of their mortgage portfolios with 3.1% being the highest.

Michigan Credit Unions Data

- Credit union serious mortgage delinquency rate of .7% compares favorably to MI. and U.S. trends for all lenders:



Source: HMDA/ JEC

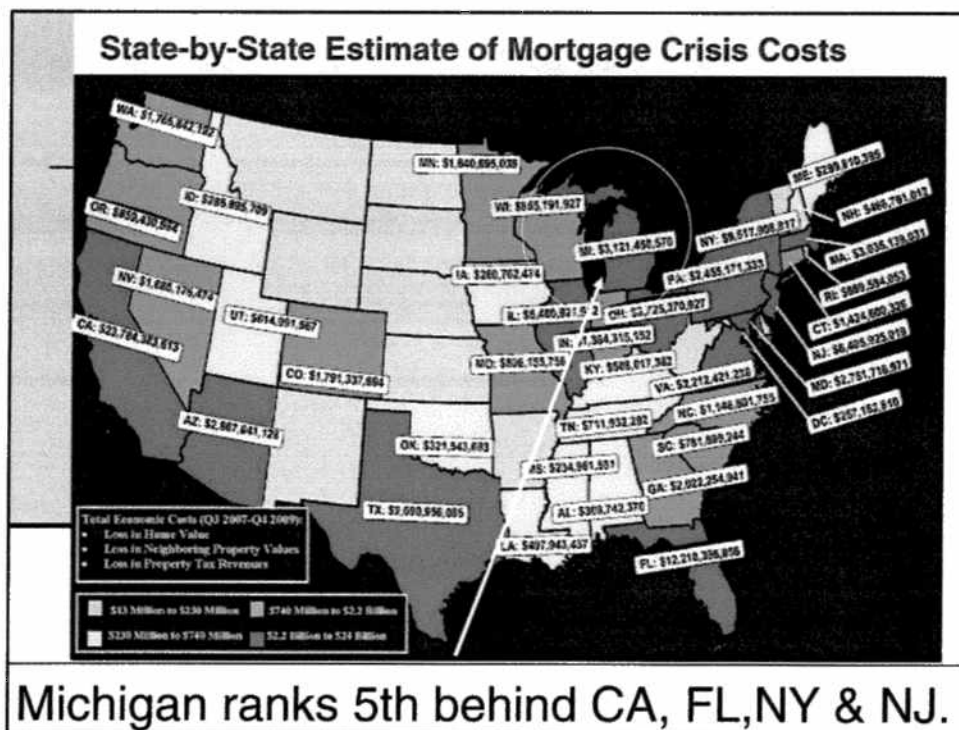
A National Crisis That Affects Everyone!

- Despite credit unions and other depositories having low delinquency rates, this crisis affects us all!
 - Homeowners will see property values decline by \$1.2 trillion dollars in 2008.
 - With many sub-prime ARMs preparing to reset in May estimates have the number of new foreclosures almost doubling from 1.4 million in 2007 to 2.8 million in 2008.
 - U.S. GDP Growth will be 1% less in 2008 (1.9% vs. 2.9%) than it would be with no foreclosure crisis.
 - The multiplier effect of decreased GDP growth will result in 524,000 fewer jobs created nationwide.

Source: U.S. Metro Economies/ November 07

- Taking into account the cumulative effect of foreclosures on neighbors and communities; 45 million homes could be affected with a potential economic loss upwards of \$250 billion.
 - An average of over \$5,000 per home in lost value.
 - A potential snowball effect with subsequent foreclosures.
 - Lost property tax revenue.
 - Lost consumer spending as homeowners reduce spending out of fear.
 - Damaging the community fabric of middle class America, not just urban areas.

Source: HMDA/ CRL



A National Crisis That Affects Everyone!

■ Credit Unions and Mortgage Complaints

- On October 9, before this Committee, OFIS testified that between July 1, 2006 and June 30, 2007, they received over 1,200 mortgage related complaints.
 - Only 7 of those complaints involved state chartered credit unions.
 - Credit unions are making careful and responsible loans to their members.
 - Credit unions help their members to make sound financial decisions.
- **Credit Unions have contributed little to the crisis, but we are ready and willing to be part of the solution!**

Source: OFIS

What steps can be taken to help those facing difficulty?

➤ Private Sector Programs

- *MCUL Community Reinvestment Initiative (CRI)*
 - *Financial Counseling (ACCEL)*
 - *Home Loan Payment Relief (HLPR)*
 - *Career Transition Program*
 - *Just File It Program*
 - *Financial Literacy/Education*

➤ Public/Private Sector Programs (i.e., DOLLAR WISE sponsored by the U.S. Conference of Mayors)

➤ Legislative and Regulatory Changes

Michigan Credit Unions Fulfilling Their Social Mission



- ✦ Service is *the* core credit union value, concisely stated in the traditional credit union credo of “Not for Profit, Not for Charity, but for Service.”
- ✦ Social responsibility has always been recognized as an integral part of each credit union’s mission.
- ✦ In 2004, the Community Reinvestment Initiative (CRI) was launched by the Michigan Credit Union League (MCUL) to expand and track credit union community service activities.
- ✦ In terms of mortgage lending, CRI programs are effective in:
 - Keeping communication open; detecting when members are approaching declining situations.
 - Working with members early to avoid delinquency and foreclosure.
 - Offering face-to-face financial counseling.

Financial Counseling- **ACCEL**



- ✦ Founded by credit unions in 1961 for credit unions, ACCEL is one of the largest & most successful non-profit financial education organizations in the U.S.
- ✦ Michigan-based in Farmington Hills.
- ✦ Cost is borne by the credit union; no cost to members to use this service.
- ✦ Features include:
 - ✦ Avoiding bankruptcy, foreclosure, & repossession.
 - ✦ Solutions for debt repayment.
 - ✦ Personal & family budgeting
 - ✦ Personal money management

Financial Counseling- ACCEL— cont.



- All counselors, including those at initial contact point are required to possess four-year degrees.
- Counselors must exceed National Foundation for Credit Counseling (NFCC) standards.
- ACCEL is HUD certified in all aspects of housing counseling.
- Over 50 MI CUs offer this program, providing access to over 1 million consumers.

<http://www.accelservices.org/partners/index.aspx>

Financial Products Home Loan Payment Relief (HLPR)



- **Home Loan Payment Relief Program is a credit union Initiative Started in 2006.**
 - HLPR helps credit unions to assist people of modest means with mortgage difficulties.
 - HLPR finances 97% or more of a mortgage.
 - Available to home buyers with limited income.
 - Available to those looking to refinance out of an adjustable-rate mortgage.
 - Seven credit unions in Michigan offer HLPR which follows NCUA guidelines.

http://www.cuna.org/initiatives/hlpr/get_started.html

Financial Products

Home Loan Payment Relief (HLPR)



■ Participating Michigan Credit Unions:

- Central Macomb Community CU
- Community Financial Members CU
- Consumers CU
- Detroit Edison CU
- Option 1 CU
- Munising CU
- T&C Federal CU

Financial Literacy/ Education



Our Commitment to Financial Literacy

- In an effort to find long term solutions to foreclosure/ predatory lending issues, credit unions are at the forefront of providing Financial Education to our members and the community.
- Since 1999, Michigan credit union staff have educated, on average, approximately 40,140 Michigan K-12 students per year about personal finance.
- Credit unions administer some 257 student-run credit union branches across the state of Michigan. These branches provide youth and young adults the opportunity to learn real life employment skills.

Financial Literacy/ Education



Our Commitment to Financial Literacy

- However, it is with adult financial literacy that we are falling short of reaching those in need.
- Despite 85% of credit unions offering free financial education to members, many simply do not take advantage of the opportunity.
- This financial education is most imperative in low income areas where, unfortunately, the majority of predatory lending takes place.
- In 2008 the MCUL plans to expand coordinated, adult-focused financial literacy efforts throughout Michigan.

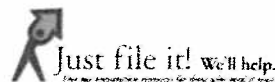
Financial Literacy/Education



Other Key CRI Programs



- 37 credit unions have committed nearly \$40 million to help displaced workers garner new employment skills through a landmark loan program called the Career Transition Program.



- More than 100 credit unions are offering free tax preparation services through the "Just File it!" program. In 2006, more than 1.4 million was returned to low income individuals and families in the form of tax returns and tax credits.

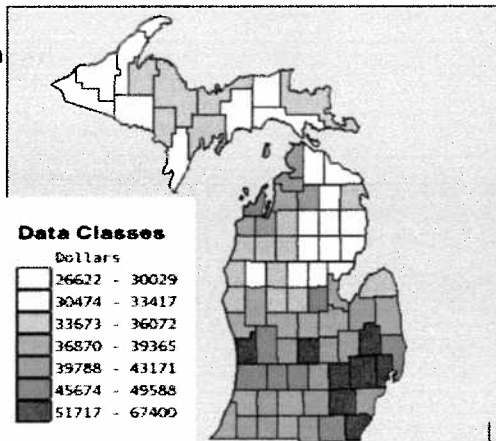
Financial Literacy/Education



Our Commitment to Providing Affordable Financial Services

- 20% of new credit union branches that will open in the next three years will be in low-income areas.
- There are currently 30 low-income credit unions in Michigan.
- Together they operate 58 branches in low income areas that serve some 142,500 members.

Sources: National Credit Union Administration,
2006 MCUL CRI Survey and Aggregate Report



Financial Literacy/ Education



Although this foreclosure crisis will undoubtedly continue to be devastating for the people of Michigan and our economy, we also view it as an opportunity for credit unions to partner with:

- Lawmakers
- The non-profit community
- Consumer advocates
- Other Financial Institutions

..... to find real long term solutions to the financial literacy challenge that underlies the current mortgage crisis, predatory lending, identity theft, inadequate consumer savings habits and other related societal challenges.

Legislative and Regulatory Reform

So, Is more legislation and/ or regulation the answer?

Yes..... and No!

Legislative and Regulatory Reform

- The MCUL and our member credit unions will support legislative and regulatory efforts that would truly deter predatory lending and remove “bad actors” from the marketplace.
- However, we have serious concerns over the unintended consequences of eliminating certain products and services that for some borrowers are perfectly legitimate.
- We are also concerned that the over-regulation of the marketplace will make it more difficult for credit unions and other responsible lenders to help those in real need while bad actors find new and more creative ways to circumvent laws and regulations.

Legislative and Regulatory Reform

Possible Policy Responses (offered by US Senate Joint Economic Committee):

- Increase Resources for non-profit housing counselors specializing in foreclosure prevention.
- Direct servicers and lenders to make safe and sustainable modifications or refinancing.
- Increase FHA's ability to refinance
- Expand capability of Government Sponsored Enterprises (GSE) to refinance sub-prime borrowers.

Legislative and Regulatory Reform

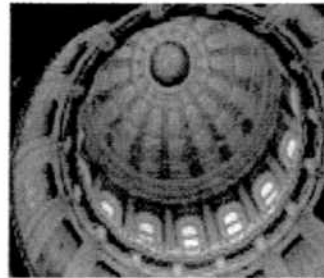
Possible Policy Responses (offered by US Senate Joint Economic Committee):

- Amend bankruptcy code to protect families in foreclosure *
- Reform mortgage lending and ban predatory lending practices.
- Make sure all borrowers understand the terms of their mortgages.

** Current Federal Legislation is not supported by the MCUL and our national affiliate CUNA.*



The MCUL looks forward to working with lawmakers and OFIS to address this issue.... while helping to ensure the American dream of home-ownership remains within reach.



QUESTIONS?